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Foreign Economic Trends and Their Implications for the United States

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MALAYSIA

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KEY ECONOMIC INDICATORS FOR MALAYSIA

Values in millions of U.S. dollars (US$) unless otherwise specified, at the year's average exchange rate, except Foreign Debt and Foreign Reserves (converted at year-end rates). Percentage changes calculated in M$ terms to exclude exchange rate fluctuations.

	1986	1987	1988(a)	1989*
Income, Production, Employment				
GNP in 1978 Prices	21,050	22,590	23,540	24,180
Percent Growth	2.6%	4.8%	8.6%	7.6%
GNP at Current Prices	25,740	29,890	32,490	34,840
Percent Growth	-7.9%	13.5%	13.2%	12.2%
Per Capita GNP (Curr. US$)	1,596	1,809	1,920	2,005
Population (millions)	16.11	16.53	16.92	17.34
Labor Force (millions)	6.09	6.41	6.62	6.83
Unemployment Rate	8.3%	8.2%	8.1%	7.9%
Money and Prices				
Money Supply M2 (M$ millions)	53,767	56,459	60,400	
Growth of Money Supply	11.1%	5.0%	6.9%	
Inflation (CPI)	0.6%	1.1%	2.5%	3.6%
Commercial Prime Rate	10.0%	7.0%	6.75%	
Balance of Payments				
Merchandise Exports	13,706	17,710	20,918	22,073
Merchandise Imports	10,304	11,823	15,289	17,818
Merchandise Balance	+3,402	+5,887	+5,629	+4,259
Services & Transfers (Net)	-3,351	-3,315	-3,749	-3,818
Current Account Balance	+51	+2,572	+1,890	+436
Exchange Rate (avg., per US$)	2.58	2.52	2.63	2.75
Official Net For Exch Reserves	6,279	7,799	6,757	7,636
Foreign Debt (Med. & Long)	19,615	20,216	17,436	16,000(a)
Debt Service Ratio	18.7%	16.0%	13.3%	12.5%
Government Finance				
Federal Gov't Revenues	7,571	7,202	8,183	8,194(b)
Federal Gov't Spending	10,483	9,645	9,669	10,642
Federal Deficit	-2,912	-2,443	-1,486	-2,448
Percent of GNP	11.3%	8.2%	4.6%	7.0%
Overall Public Sector Deficit	-2,526	-1,588	-1,562	-2,436
Percent of GNP	9.8%	5.3%	4.8%	7.0%
U.S.-Malaysian Trade (c)				
U.S. Exports to Malaysia	1,727	1,895	2,139	2,600(a)
U.S. Imports from Malaysia	2,534	3,053	3,853	4,500
U.S. Balance with Malaysia	-807	-1,158	-1,714	-1,900
U.S. Share in Malaysia's Trade	17.6%	17.5%	17.7%	

(a) Embassy estimate (b) budget (c) exports FAS, imports CIF
* Forecast

Sources: Bank Negara Annual Report 1988
Ministry of Finance Economic Report 1988/1989
Bank Negara Quarterly Report Sept. 30, 1988
U.S. Department of Commerce

SUMMARY

Malaysia's economic expansion strengthened and broadened in 1988 as domestic demand began to complement the export boom which led the economy out of its worst recession since independence. Real output (GDP) grew 8.1 percent in 1988, following 5.2 percent growth in 1987. The government is forecasting 7.3 percent real growth in 1989, a figure well within the economy's reach, but Malaysia's high export dependence (merchandise exports are 64 percent of GNP) leaves it vulnerable to a recession in the OECD countries.

National income (nominal GNP) grew 13.2 percent in 1988. Domestic demand took over from exports in providing the economy's momentum in 1988. Gross capital formation accounted for 34 percent of the increase in GNP and private consumption spending 71 percent in 1988. Net exports of goods and services declined. In 1986 and 1987, net exports accounted for 75 percent of the increase in GNP. Malaysia should see continued, broad-based growth in 1989. Investment spending will show strong growth and consumer demand remains strong. External demand is again expected to make a negative contribution as the external surplus narrows. Nominal GNP growth is forecast at 12.2 percent in 1989.

Malaysia's current account posted a remarkable turnaround from a $3.5 billion deficit in 1983 to a $2.6 billion surplus in 1987 (8.6 percent of GNP). The current account surplus narrowed to $1.9 billion in 1988 and is forecast to decline further to $436 million in 1989. Total exports grew 23 percent to $20.9 billion in 1988, on top of 1987's 25.9 percent rise. Manufactured goods surpassed traditional commodities for the first time to account for 48.5 percent of exports in 1988.

Foreign direct investment continues to increase, particularly from Japanese and Taiwanese manufacturers facing higher costs at home. Malaysia used part of its increased external reserves to make net repayments on its foreign debt of $3.8 billion in 1987 and 1988. The ringgit depreciated against the U.S. dollar and most major currencies during the year.

Tight control of spending and the recovery's boost to revenues have reduced the federal deficit from 11.3 percent of GNP in 1986 to 4.6 percent in 1988. The corporate tax rate is being cut from 40 to 35 percent, and the 5 percent development tax will be phased out. The consolidated public sector deficit fell from 9.8 percent of GNP in 1986 to 4.8 percent in 1988. Government spending and the deficit are budgeted to increase in 1989 as several deferred projects resume.

Inflation was 2.5 percent in 1988. The government expects it to rise to 3.6 percent in 1989 and some economists believe the underlying inflationary pressures could push it even higher. Unemployment declined marginally to 8.1 percent.

MALAYSIA'S ECONOMY IN BRIEF

From 1965 to 1984, the Malaysian economy saw sustained rapid growth and diversification. Manufacturing expanded and supplanted agriculture as the economy's largest sector. In 1988, manufacturing accounted for 24 percent of real GDP, agriculture 21.2 percent; mining and petroleum 10.6 percent; construction 3.2 percent; and government services 12 percent.

The Malaysian economy is extremely open with total exports and imports of goods and services equal to 133 percent of GNP. As a result, Malaysia is highly dependent on an open international trading system and external developments have a strong impact. Malaysia also remains a commodity producer. Six commodities--petroleum (including LNG), palm oil, rubber, tin, timber and cocoa--still account for 45 percent of Malaysia's exports. A 20 percent decline in Malaysia's terms of trade in 1985 and 1986 cost the country more than $3 billion annually in lost commodity earnings and drove the economy into its most severe recession since independence, reducing national income, government revenues, consumer spending and investment. 1987 saw a recovery in commodity prices and a boom in exports of manufactured products, lifting Malaysia out of its recession. The recovery strengthened and broadened in 1988.

The New Economic Policy (NEP) was established in 1971 with two objectives: to eradicate poverty in Malaysia and to restructure the economy so as to end the identification of economic function with race. In particular, the NEP was designed to enhance the economic standing of the ethnic Malays and other indigenous peoples (collectively known as "bumiputras" in Malay).

One important NEP goal is to alter the pattern of ownership of corporate equity in Malaysia. By 1990, the NEP seeks to ensure that at least 30 percent of corporate equity is held by bumiputras, 40 percent by other Malaysians (primarily Chinese and Indian Malaysians), and no more than 30 percent by non-Malaysians. The government established various trusts which were provided government funds to purchase foreign-owned shareholdings on behalf of the bumiputra population. Foreign firms have been urged to restructure their equity in line with the NEP guidelines. The government estimated that bumiputras directly and indirectly owned 18 percent of corporate equity in 1985 and foreigners 26 percent. It is generally acknowledged that the goals of the NEP cannot be achieved by 1990.

In 1988, the government established a National Economic Consultative Commission (NECC) to review the NEP and make recommendations on economic policy beyond 1990. The NECC comprises more than 150 members representing political parties, business, labor, professional groups and individuals. It is expected that the NECC will recommend a continuation of the NEP in some form beyond 1990.

CURRENT ECONOMIC SITUATION AND TRENDS

Aggregate Demand and Output: Real output (GDP) grew by 8.1 percent in 1988, the highest growth this decade. This compares with 5.2 percent in 1987 and only 1.2 percent in 1986. Growth slowed in the second half of 1988 from the second quarter's 10.5 percent rate, mainly due to slower export demand. The government is projecting real GDP growth of 7.3 percent in 1989. Malaysia's terms of trade improved 13 percent in 1987 and 1988 helping, to boost nominal GNP by 13.5 percent in 1987 and 13.2 percent in 1988. This compares with the combined 10.6 percent decline in 1985 and 1986. Aggregate demand and nominal GNP growth is expected to remain strong at 12.2 percent in 1989.

Exports led the recovery in 1986 and 1987, but 1988 saw a broadening of the expansion and an increasing contribution to growth coming from domestic demand. Net exports of goods and services accounted for 75 percent of the increase in aggregate demand in 1986-87. In 1988, investment accounted for 34 percent of increase in aggregate demand and private consumption spending 71 percent. Net exports of goods and services declined. Private gross capital formation increased 17.9 percent in 1988 (in real terms), reflecting the fact that more and more industries are working near capacity. Public sector investment rose 8.6 percent following two years of decline. Private consumption grew 15.5 percent in 1988, driven by rising incomes and increased consumer confidence.

Malaysia should see continued, broad-based growth in 1989, but at a slightly slower pace. Investment is expected to account for 55 percent of the increase in aggregate demand and private consumption 77 percent. External demand is expected to again make a negative contribution to aggregate demand.

Manufacturing accounted for 24 percent of GDP in 1988. Real output grew 15.3 percent in 1988 (12.8 percent in 1987) and is forecast to increase 13.5 percent in 1989. Production of electrical machinery grew 17.7 percent (30.7 percent in 1987), mainly reflecting slower growth in output of electronic components (up 17.3 percent). Malaysia is the world's third

largest producer of integrated circuits and other semiconductor devices after the United States and Japan. Output of televisions, air conditioners and radios grew rapidly. The rubber products sector expanded 75.6 percent in 1988 (31.8 percent in 1987) on the global demand for examination gloves.

Agriculture is the economy's second largest sector (21.2 percent of GDP) and grew 4.8 percent in 1988 (7.4 percent in 1987). The government forecasts 3.7 percent growth in 1989. Production of saw logs and timber declined 2.4 percent in 1988 to 40.9 million cubic meters (MCM) after a 19 percent increase in 1987. The main markets for Malaysian timber are Japan, Taiwan and South Korea. Malaysia's National Forestry Policy calls for a reduction in logging from natural forests to 4.8 MCM per year after 1995. Palm oil output increased 11 percent to 5 million metric tons (MT) in 1988. Output should increase to 5.6 million MT in 1989. Malaysia produces 59 percent of the world's palm oil. Rubber output increased 5 percent in 1988 to 1.66 million MT. Malaysia produces 33 percent of the world's natural rubber. Despite low world prices, cocoa production continued its rapid expansion with output up a combined 77 percent over 1986 to 231,000 MT. Malaysia was the world's third largest cocoa producer in 1988.

Mineral output was up 6.3 percent in 1988, after a marginal increase of 0.1 percent in 1987. Oil production averaged 542,000 barrels per day (bpd) in 1988, an increase of 8.8 percent over 1987's 490,000 bpd. The government plans to produce 562,000 bpd in 1989. Production of natural gas output was 1,900 million standard cubic feet per day, up 23 percent from 1987. More than 80 percent of Malaysia's gas output is exported in liquified form (LNG) to Japan. Malaysia began work in 1988 on a 450 mile pipeline to deliver offshore gas to the industrial and population centers in Malaysia and Singapore. Completion is set for 1991. Despite rising tin prices during 1988, production declined 5 percent to 28,866 MT. Malaysia is still the world's largest producer, but output is unlikely to ever regain 1980's level of 61,400 MT. In cooperation with other tin producers, Malaysia agreed to limit its exports as part of a program to assist the market's recovery from the 1985 collapse of the International Tin Council. Higher tin prices and falling stocks may bring an early end to the restrictions.

The construction industry expanded 2.5 percent in 1988, following three years in which output declined 30 percent because of the glut of commercial property. Growth of 8.5 percent is predicted for 1989 due to rising commercial rents and strong housing demand. The services sector is estimated to have grown 7.2 percent in 1988 (4.8 percent in 1987).

Unemployment officially stood at 8.1 percent of the labor force at the end of 1988. The economy's growth boosted employment an estimated 3.5 percent in 1988 and has accenuated earlier concern about rising unemployment among new university graduates.

Wages and Prices: Inflation (CPI) increased to 2.5 percent in 1988 and is expected to reach 3.6 percent in 1989. The inflation rate for 1988 would have been higher except for declining rents. With housing demand strong and the weak ringgit boosting import prices, Malaysia's inflation rate could reach 5 percent or higher this year. Private sector wages increased an average of 6.3 percent in 1988, and public sector employees received their first general pay increase in eight years.

Balance of Payments and Foreign Debt: From 1983 to 1987, Malaysia's balance of payments turned from a $3.5 billion deficit to a $2.6 billion surplus in 1987 (8.6 percent of GNP). The government's preliminary current account for 1988 shows a smaller surplus of $1.9 billion because of a slight decline in the merchandise surplus and an increase in the services deficit.

Merchandise exports performed better than expected, increasing 23.1 percent in 1988 to $20.9 billion (following a 26.4 percent rise in 1987). Higher non-oil commodity prices in most of 1988 helped. Export earnings from Malaysia's traditional commodities (oil, gas, rubber, palm oil, timber, tin and cocoa) increased 12 percent to $9.9 billion. Manufactured exports increased 32 percent to $10.3 billion. Manufactured goods were 48.5 percent of exports in 1988; traditional commodities were 46.7 percent.

Imports increased 34.7 percent to $15.3 billion, leaving the merchandise surplus at $5.6 billion ($5.9 billion in 1987).

Malaysia runs a large services deficit. The preliminary estimate of 1988's deficit on services and transfers is $3.7 billion, up from $3.3 billion in 1987 but below earlier forecasts of $4.2 billion. Investment income, the largest component of Malaysia's services account, recorded a gross outflow of $2.8 billion due mainly to higher profits and dividend income accruing to foreign investors. The 1989 services deficit is forecast at $3.2 billion.

The debt service ratio (excluding prepayments) fell from 18.7 percent in 1986 to 13.3 percent in 1988. Government spending cuts have held down the growth of Malaysia's foreign debt since 1984. Net borrowing peaked at $3.7 billion in 1982. In 1987 and 1988 Malaysia made $3.8 billion in net repayments on its

debt, including substantial prepayments. At the end of 1988, Malaysia's foreign debt was $17.4 billion, down from $20.2 billion in 1987. Forty-two percent of the foreign debt is denominated in U.S. dollars and 35 percent in yen. As of December 31, 1988, net official foreign exchange reserves stood at $6.8 billion (5.1 months of retained imports).

Money, Interest Rates and the Banking Sector: The growth of monetary aggregates moderated in the first half of 1988 but picked up markedly in the second half. M1 (cash plus demand deposits) grew 14.6 percent year-to-year (13 percent in 1987) after growing only 4.4 percent through the first three quarters. The broader M2 (M1 plus savings accounts) grew only 6.9 percent year-to-year (5 percent in 1987).

Interest rates remained steady and, by past experience, low during 1988 but moved sharply upwards in early 1989. Interbank rates were generally in the 3-4 percent range, pushing towards 4 percent at year-end. Lower deposit rates (4 percent on one year deposits) and pressure from Bank Negara pushed down the base lending rate (equivalent to prime in the United States) from 7-7.5 percent to 6.75-7 percent. The average lending rate for the commercial banks declined by nearly 1 percentage point to 8.95 percent. Early 1989 saw strong upward pressure on rates. Interbank rates rose as much as 2 percentage points. Some banks called for an increase in the base lending rate. Bank Negara regulates banks and finance companies and, since 1988, insurance companies. Malaysia has no deposit insurance system, but Bank Negara has made clear that it will protect deposits in regulated institutions. It resolved the problems caused by the collapse of 24 (unregulated) deposit-taking cooperatives in 1986 and rescued three commercial banks in 1987 by assisting in their recapitalization. Bank Negara intends to return them to the private sector once conditions permit. In 1988, Oriental Bank and several finance companies came under Bank Negara control after suffering heavy losses.

In March 1989, Bank Negara announced that it will require foreign banks operating in Malaysia as branches to incorporate locally within five years.

The Malaysian currency (the ringgit--M$) depreciated 8.1 percent against the U.S. dollar (up 4.4 percent in 1987), falling from M$2.4915 per U.S. dollar at the end of 1987 to M$2.7125 at the end of 1988. The decline was fairly steady throughout 1988 but did not pass 1987's low of M$2.67 until November. The ringgit declined 6.2 percent against Bank Negara's currency basket and 5.6 percent against the Japanese yen. The decline against the U.S. dollar continued into 1989, reaching M$2.75. The continued decline reflects the dollar's strength. The ringgit rose against the yen in early 1989.

The Public Sector: Public sector finances in 1988 turned out better than expected in the budget report, but the public sector deficit remains high and the government's credit demands could constrain future growth. Tight control of total spending (which was below the 1984 level) and higher tax revenues reduced the 1988 federal deficit from the $2.4 billion (8.7 percent of GNP) projected in the 1988 budget to an estimated $1.5 billion (4.6 percent of GNP). The 1988 consolidated public sector deficit (including the state governments and the Non-Financial Public Enterprises -- NFPE's) was an estimated $1.6 billion (4.8 percent of GNP), compared with $3.4 billion in the original 1988 budget.

Malaysia's 1989 budget provides a modest stimulus to the economy. Federal spending will rise 8 percent over the 1988 budget (and 13.5 percent over actual 1988 spending) to $10.6 billion, mainly in the development (capital) budget. Revenues are expected to increase only 4.9 percent, resulting in a budgeted federal deficit of $2.5 billion (7 percent of GNP). The improvement in the performance of the NFPE's means that the government is expecting a consolidated public sector deficit of only $2.4 billion (6.8 percent of GNP).

The government has been a heavy borrower on Malaysia's domestic credit markets in the past two years, both to finance its deficit and to prepay foreign debt with cheaper domestic debt. During 1987 and 1988, the government borrowed $6.4 billion domestically. Because of high domestic savings and liquidity in the financial system, the government's borrowing did not push interest rates up but heavy borrowing could constrain the economy's future growth. The government has said it will reduce its domestic credit demands in 1989 by limiting the prepayment of foreign debt. Total domestic government debt stood at M$63 billion (74 percent of GNP).

The government cut the corporate tax rate from 40 to 35 percent for 1989 and will phase out the 5 percent development tax, beginning with a 1 point cut in 1990. This will reduce the effective tax rate to 39 percent. It was 48 percent in 1987. To make up part of the lost revenue, the government broadened the sales tax and plans to move towards a value added tax (VAT). Despite these reforms, the government remains too dependent on petroleum (30 percent of revenues). Restoring buoyancy to revenues will require reform of the tax system to eliminate leakages and broaden the tax base.

The government is trying to improve efficiency in the statutory bodies and NFPE's. They are expected to generate operating profits in 1989 sufficient to cover their investment spending,

ending their collective drain on the government. The aggregate success, however, obscures the problems at many NFPE's. In addition, public entities also control more than 800 other companies, many losing money. The government has pledged to continue reducing losses at the NFPE's and to expand its privatization program.

IMPLICATIONS FOR THE UNITED STATES

U.S.-Malaysia trade grew sharply in 1987 and 1988. The United States is Malaysia's second leading trading partner (after Japan), taking 17.3 percent of Malaysia's exports and supplying 17.7 percent of its imports. In 1988, U.S. exports to Malaysia grew 13 percent to $2,139 million, compared to 9.7 percent in 1987 (U.S. Department of Commerce figures). U.S. imports from Malaysia rose 26 percent to $3,853 million. The United States ran a $1,714 million bilateral deficit with Malaysia ($1,158 million in 1987). Firms responding to a survey of American investment in Malaysia (below) reported sales of $1,637 million to the United States, 54 percent of all U.S. imports from Malaysia that year.

The largest item in trade in both directions is electronic components produced mainly by American firms from U.S. inputs and reexported to the United States. In 1988, electronic components accounted for 61 percent of American exports to Malaysia and 41 percent of U.S. imports from Malaysia. Consumer electronics and telecommunications equipment (including televisions and radios) accounted for 13.1 percent of U.S. imports from Malaysia ($506 million) while textiles and apparel accounted for 12.1 percent ($467 million). The United States is also an important market for Malaysian rubber ($205 million) and palm oil ($160 million). Overall, 85 percent of Malaysian exports to the United States are manufactured goods, compared with 50 percent in 1980.

Efforts in the United States to require that food labels identify palm oil, palm kernel oil and coconut oil as saturated fats became a serious trade issue. Malaysia blames the American Soybean Association (ASA) for what it sees as a protectionist trade measure. The Administration opposed a 1988 bill requiring food labels to identify tropical oils as "saturated" because it would selectively discriminate against types of oils whose health characteristics are not yet fully understood. The Food and Drug Administration urged caution. The National Heart Savers Association has led a publicity campaign urging Americans to avoid tropical oils and pressing food manufacturers to exclude these oils from their products. The Malaysian Oil Palm Growers Association and the Palm Oil

Research Institute of Malaysia have countered with a public information campaign of their own.

Perusahaan Otomobil Nasional (Proton), a joint venture between the government-owned Heavy Industries Corporation of Malaysia (HICOM) and Mitsubishi of Japan, has abandoned plans to export automobiles to America. Global Motors, the U.S. agent, failed to obtain U.S. certification for the car and has recently filed for protection under Chapter 11 of the U.S. bankruptcy code.

In June 1988, the AFL-CIO filed a petition seeking withdrawal of Malaysia's trade privileges under the American Generalized System of Preferences (GSP), charging that Malaysia does not observe internationally recognized workers rights. Following an extensive review, the U.S. Trade Representative (USTR) announced in April 1989, that the GSP Subcommittee had determined that Malaysia "had taken and is taking" steps to respect workers rights, retaining Malaysia's GSP eligibility.

As Malaysian exports to the United States have grown, some have come under increasing scrutiny from American firms invoking trade legislation provisions against subsidies and dumping. In 1988, the United States levied countervailing duties on Malaysian steel wire rod, citing Malaysia's investment incentives (tax free pioneer status) as a subsidy. More recently, the Commerce Department has begun monitoring imports of color televisions from Malaysia in response to an anti-dumping complaint from Zenith.

Investment: American investment in Malaysia is important in the overall relationship. The American Embassy's recent survey of U.S. investment in Malaysia revealed that firms with American participation have $4.8 billion in assets in Malaysia at the end of 1987. The portion attributable to the American ownership is $4.6 billion, reflecting the fact that a large portion of the firms are 100 percent U.S. owned. The petroleum sector accounts for $2.9 billion in total investment (63 percent of the total), mainly Exxon's offshore oil and gas production subsidiary. Manufacturing investment totals $895 million (20 percent), concentrated in the electronic components subsector ($727 million). These companies planned further investments of $436 million in 1988 and $358 million in 1989. Respondents accounted for 15 percent of Malaysia's 1987 merchandise exports and for 21 percent of Malaysia's 1987 merchandise surplus.

Expansion and the greater capital intensity of the electronics industry have been prime factors in the strong U.S. investment in Malaysia. National Semiconductor inaugurated the first partial wafer fabrication facility in Malaysia in 1987, and

Motorola opened the first complete one in 1988. Labor shortages and rising wages in Singapore and Taiwan have led several American firms such as GE and Avnet to relocate the more labor-intensive parts of their operations to Malaysia. Exxon is implementing a major investment program developing offshore oil facilities. Aetna and John Hancock have purchased stakes in Malaysian insurers, joining American International Assurance, a 100 percent U.S.-owned firm which is Malaysia's largest life insurance company. In 1987, Merrill Lynch, Morgan Stanley and the World Bank's International Finance Corporation (IFC) launched the $84 million "Malaysia Fund" on the New York Stock Exchange. The closed-end mutual fund invests in a diversified portfolio of Malaysian publicly listed firms.

Government Policies: In September 1986, the Malaysian Government announced a number of measures designed to deal with the country's economic slowdown and to boost business confidence. The guidelines affecting foreign investors were liberalized. Foreign investors applying before the end of 1990 to start new projects will be permitted to retain 100 percent of the equity in a Malaysian subsidiary if they meet either of two conditions: export 50 percent or more of the output or employ more than 350 full-time Malaysians. The government has pledged that such firms will never be required to restructure their equity. Equity guidelines for firms exporting less than 50 percent of their output were also liberalized along with the rules governing work permits for expatriate staff.

The government also introduced several measures to encourage Malaysian business and boost exports. The Industrial Coordination Act (ICA) was liberalized so that only companies with a paid-up capital in excess of $900,000 (up from $360,000) need licenses. Exporters are eligible for a reduction in their taxable income in proportion to the share of their output which is exported.

Malaysia passed a strong patent law in 1986 and a new copyright law in 1987 which strengthens protection and explicitly extends the law's coverage to computer software. The new law took effect in December 1987 and has already significantly reduced piracy. However, Malaysia does not yet provide adequate protection to foreign works. The United States and Malaysia are working on a bilateral copyright agreement which would extend the protection of the new law to all American works.

OPPORTUNITIES FOR AMERICAN BUSINESS

Malaysia's continuing economic growth present increasing opportunities for American business. Malaysia's relaxed production

sharing agreement terms have produced a small boom in oil and gas exploration activities. A major new pipeline is under construction to pipe natural gas into peninsular Malaysia. The gas will also be the feedstock source for several planned large petrochemical projects. There are, therefore, important opportunities for oil and gas equipment, especially for exploration, transmission and petrochemical manufacturing.

Malaysia's telecommunications company was privatized several years ago and continues efforts to make its activities more commercially oriented. There are opportunities in the telecommunications sector for U.S. firms who are willing to make commitments to the market. Computers and peripherals, including those connected with telecommunications and especially software and add-on hardware, enjoy a good and growing market as well.

Infrastructure provides the most important major project opportunities. The government is committed to programs in power generation and distribution, and water resources (including toxic waste disposal). A partially completed four lane 550 mile long expressway running the length of the country was privatized and construction is under way to complete it.

Other opportunities for American firms remain in petrochemicals, medical equipment, food processing and packaging, plastics and educational equipment and materials.

Malaysia's economic recovery has led to rapid growth in the retail food sector and has contributed to the growing demand for imports of processed and high value foods. There are good opportunities for sales of fresh and processed fruits and vegetables. In particular, prospects are very good for apples, oranges, table grapes, nuts (especially almonds), and frozen french fries. Imports of American fruit and vegatable juices also have been encouraging. With better promotion, U.S. wines could make some inroads in the Malaysian market.

Growing consumption of bread, pastries and pasta has encouraged greater imports of wheat. Rapid growth in the domestic livestock industry points to increased demand for feedstuffs such as corn and soybeans and offers opportunities for imports of breeding stock. Greater imports of cotton will be required to supply the booming textile/clothing industry. U.S. bulk commodities (wheat, corn, soybeans, cotton, etc.) generally have not been price-competitive with supplies from nearby exporters such as Australia, China, and Thailand, but the long-range prospects are much better as Malaysia's import demand for these commodities continue to expand.

For more information, exporters should contact the Foreign Commercial Service or the Foreign Agricultural Service in the American Embassy or the Malaysia Desk, Room 2308, International Trade Administration, U.S. Department of Commerce, Washington, DC 20230.

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